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**The State of North Dakota:
Economic Outlook**

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The State of North Dakota: Economic Outlook¹

F. Larry Leistritz²

Executive Summary

The North Dakota economy was growing less rapidly than the national average during the first half of 1999. Employment increased at an annualized rate of 1.9 percent in North Dakota (compared to 2.1 % nationally) and wage rates increased 2.3 percent (compared to 2.7 % nationally). Tight labor market conditions, reflected by low unemployment rates and high rates of labor force participation, have been cited as a reason for slower job growth. In addition, a depressed farm economy and oil prices which have only recently begun to recover from a slump that began in 1997 and continued through 1998 have raised concerns for state decision makers.

The purpose of this paper is to summarize the general condition of the North Dakota economy and the outlook for the next few years. This will include addressing recent and projected changes in employment, personal income, and population. Forces affecting the growth and decline of various economic sectors will be discussed, and specific examples of new or expanding firms in various economic sectors will be presented. Differences in economic performance among regions of the state and between urban and rural areas will be examined, and major factors affecting the state's economy over the next two to five years will be examined.

Total employment statewide grew by 14 percent from 1990 to 1997, compared to an increase of only 3.6 percent from 1985 to 1990. The increase in total employment from 1990 to 1997 amounted to 46,856 jobs. Among the sectors with the greatest job gains were retail trade (8,443 jobs), professional and social services (8,870 jobs), business and personal services (10,580 jobs), and manufacturing and agricultural processing (7,915 jobs). Recent employment gains reflect diversified growth -- every sector except agriculture and petroleum exploration/extraction registered employment gains during the 1990-97 period.

Personal income growth in North Dakota has been volatile over the past few years, reflecting among other things the state's continued high dependence on agriculture. Personal income growth fluctuated from 11.5 percent in 1996 to -0.7 percent in 1997, and 7.4 percent in 1998.

¹Paper for presentation at 1999 Great Plains Economic Roundtable, sponsored by the Center for the New West, Omaha NE, September 16-17,1999.

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North Dakota's population began increasing in 1992, reversing a period of decline that began in the 1980s. The estimated 1996 population of the state was 643,539, which represented a 1.5 percent increase from the 1991 level. In 1997, the state's population began to decrease, reflecting the effects of the flood of 1997 and the emerging economic problems in agriculture. The state's estimated population in 1998 was 638,244, which represented a decrease of 0.7 percent from the 1996 level.

The patterns of slackening economic growth and population decline established over the past few years are expected to continue through the remainder of the decade. Nonagricultural employment is projected to grow by only 0.4 percent in 1999, to decrease by 0.1 percent in 2000 and to fall another 0.2 percent in 2001. Personal income is projected to increase 1.2 percent, in real (inflation-adjusted) terms, in 1999 and 1.9 percent in 2000 and 2001. Population is forecast to decrease by 0.4 percent in 1999 and 2000 and 0.3 percent in 2001. Per capita income is expected to increase 2.8 percent in nominal terms in 1999 and 4.4 percent in 2000 and 2001. In real terms, per capita income is projected to increase 1.2 percent in 1999, 2.8 percent in 2000, and 1.9 percent in 2001.

Sales for final demand (also known as the economic base) of an area are those activities that bring money into the region. In North Dakota, these activities have traditionally been concentrated primarily in five sectors: agriculture, federal government outlays, manufacturing, tourism, and energy extraction and conversion. Over the period 1985-1997, the composition of the state's economic base has shifted substantially. In 1985, agriculture was the largest basic sector, accounting for 43.5 percent of the state's sales for final demand, followed by federal activities (31%), energy (15%), manufacturing (8%), and tourism (3%). By 1997, federal expenditures had become the largest component (36%) followed by agriculture (30%), energy (12%), tourism (12%), and manufacturing (10%).

The economic and demographic changes affecting North Dakota over the past 15 years have not been evenly distributed across the state. Rather, the state's largest urban centers have generally experienced employment and population growth while outlying rural counties have more often lost jobs and population.

A number of forces may affect North Dakota's economy over the next few years, including agricultural markets and prices, oil prices, and the effects of national policy decisions on federal transfer payments and on the operation of the state's two Air Force bases.

The State of North Dakota: Economic Outlook³

F. Larry Leistritz⁴

The North Dakota economy was growing less rapidly than the national average during the first half of 1999. Employment increased at an annualized rate of 1.9 percent in North Dakota (compared to 2.1 % nationally) and wage rates increased 2.3 percent (compared to 2.7 % nationally). Tight labor market conditions, reflected by low unemployment rates and high rates of labor force participation, have been cited as a reason for slower job growth (Goss 1999). In addition, a depressed farm economy and oil prices which have only recently begun to recover from a slump that began in 1997 and continued through 1998 have raised concerns for state decision makers.

The purpose of this paper is to summarize the general condition of the North Dakota economy and the outlook for the next few years. This will include addressing recent and projected changes in employment, personal income, and population. Forces affecting the growth and decline of various economic sectors will be discussed, and specific examples of new or expanding firms in various economic sectors will be presented. Differences in economic performance among regions of the state and between urban and rural areas will be examined, and major factors affecting the state's economy over the next two to five years will be examined.

Two major sources have been used in preparing this analysis: (1) projections developed by the WEFA Group as a basis for North Dakota's state revenue projections (WEFA Group 1999) and (2) data bases and projections developed by North Dakota State University personnel (Coon and Leistritz 1999, North Dakota State Data Center 1999).

Recent Economic and Demographic Changes

Total (covered) employment in North Dakota stood at 344,660 in June of 1999, a decrease of 0.8 percent from the figure one year earlier. This represents a departure from a general upswing in employment which began early in the 1990s.

Another perspective on recent employment changes is provided by examining total employment by sector, a series that includes farm and nonfarm proprietors, as well as wage and salary workers (Coon and Leistritz 1999). Total employment statewide grew by 14 percent from 1990 to 1997, compared to an increase of only 3.6 percent from 1985 to 1990. The increase in total employment

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from 1990 to 1997 amounted to 46,856 jobs. Among the sectors with the greatest job gains were retail trade (8,443 jobs), professional and social services (8,870 jobs), business and personal services (10,580 jobs), and manufacturing and agricultural processing (7,915 jobs). Recent employment gains reflect diversified growth -- every sector except agriculture and petroleum exploration/extraction registered employment gains during the 1990-97 period.

Personal income growth in North Dakota has been volatile over the past few years, reflecting among other things the state's continued high dependence on agriculture. Personal income growth fluctuated from 11.5 percent in 1996 to -0.7 percent in 1997, and 7.4 percent in 1998 (WEFA Group 1999).

North Dakota's population began increasing in 1992, reversing a period of decline that began in the 1980s (North Dakota State Data Center 1999). The estimated 1996 population of the state was 643,539, which represented a 1.5 percent increase from the 1991 level. In 1997, the state's population began to decrease, reflecting the effects of the flood of 1997 and the emerging economic problems in agriculture. The state's estimated population in 1998 was 638,244, which represented a decrease of 0.7 percent from the 1996 level.

Projected Economic and Demographic Changes

The patterns of slackening economic growth and population decline established over the past few years are expected to continue through the remainder of the decade. WEFA projects nonagricultural employment to grow by only 0.4 percent in 1999, to decrease by 0.1 percent in 2000 and to fall another 0.2 percent in 2001 (Table 1). They are projecting personal income to increase 1.2 percent, in real (inflation-adjusted) terms, in 1999 and 1.9 percent in 2000 and 2001. Population is forecast to decrease by 0.4 percent in 1999 and 2000 and 0.3 percent in 2001. Per capita income is expected to increase 2.8 percent in nominal terms in 1999 and 4.4 percent in 2000 and 2001. In real terms, per capita income is projected to increase 1.2 percent in 1999, 2.8 percent in 2000, and 1.9 percent in 2001.

Growing and Declining Sectors

The overall patterns of economic change in North Dakota mask substantial shifts within various sectors of the state economy. These changes will be discussed with reference to changes in the state's sales to final demand (exports) and employment by sector. Specific examples of new or expanding firms will be presented.

Sales for Final Demand

Sales for final demand (also known as the economic base) of an area are those activities that bring money into the region. In North Dakota, these activities have traditionally been concentrated

primarily in five sectors: agriculture, federal government outlays, manufacturing, tourism, and energy extraction and conversion. Agriculture includes both livestock and crop production, as well as federal farm program payments, but excludes agricultural processing. Federal government outlays include federal transfer payments (e.g., Social Security), as well as federally funded payrolls and construction. Manufacturing includes agricultural processing and other manufacturing. Tourism includes expenditures by travelers to the retail trade and business and personal services sectors. The final sector, energy, is comprised of coal (lignite) mining, coal conversion, petroleum exploration and extraction, and petroleum refining.

Table 1. Projected Economic and Demographic Changes, 1999-2002

Indicator		Year		
		1999	2000	2001
WEFA Projections:				
Employment (nonag.)	% change	0.4	-0.1	-0.2
Personal income (real)	“	1.2	1.9	1.9
Population	“	-0.4	-0.4	-0.3
Per capita income:				
nominal	“	2.8	4.4	4.4
real	“	1.2	2.8	1.9

Source: WEFA Group (1999)

The value of the state's exports (sales for final demand) from these five major sectors has grown slightly in real terms over the period 1985-1997, amounting to about \$10.7 billion (1997\$) in 1985 and \$12 billion in 1997. However, the composition of the state's economic base has shifted substantially. In 1985, agriculture was the largest basic sector, accounting for 43.5 percent of the state's sales for final demand (Figure 1), followed by federal activities (31%), energy (15%), manufacturing (8%), and tourism (3%). By 1997, federal expenditures had become the largest component (36%) followed by agriculture (30%), energy (12%), tourism (12%), and manufacturing (10%) (Figure 1).

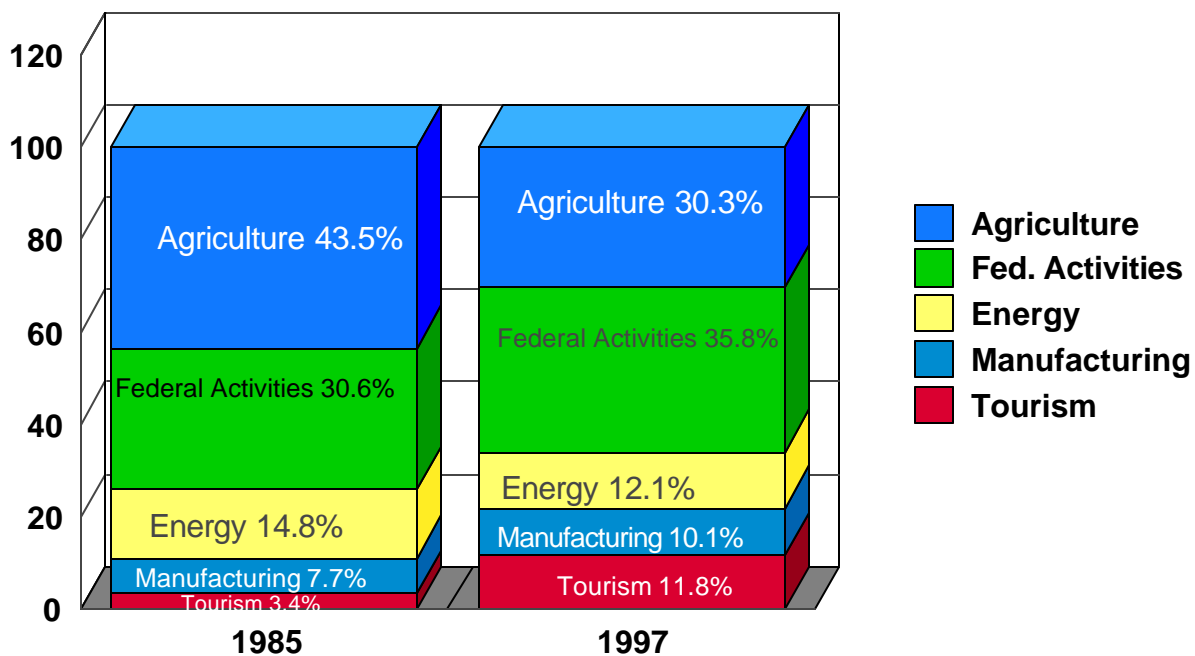


Figure 1. Components of North Dakota's Economic Base, 1985 and 1997

The increase in federal expenditures has arisen largely from the growth of transfer payments, primarily from entitlement programs (e.g., Social Security). The aging of North Dakota's population is a contributing factor in the growth of this source of federal spending. The large role of federal expenditures in the North Dakota economy also reflects the presence of two major military bases in the state: (1) Grand Forks Air Force Base and (2) Minot Air Force Base. Each of these bases is a major facility (each employed more than 5,000 personnel during the early 1990s), and each has a substantial economic impact on its host community. Looking forward, efforts by national policy makers to curb the growth of entitlement program payments and the possibility of further base closure/realignment evaluations both could have significant economic implications for North Dakota.

Agricultural sales for final demand have varied substantially from year to year, based on weather conditions, national and international markets, and changes in government farm programs. The outlook for the next few years is mixed. Beef cattle, the state's major livestock enterprise, are entering the higher price phase of their periodic cycle, with prices expected to improve over the next two or three years. On the other hand, world prices for major feed and food grains and oilseeds are depressed, reflecting a combination of high production levels and weak demand in some markets, particularly Asia. Finally, the transition payments provided by the Federal Agricultural Improvement and Reform Act (FAIR), enacted in 1996 and intended to govern U. S. farm policy through 2002, are

scheduled to decrease during the final years of the program. (However, because of concern about the plight of the farm sector, Congress is currently considering alternative forms of economic aid.)

The energy sector is quite important to the economy of western North Dakota. The coal industry expanded substantially from the 1970s to the late 1980s, as new mines were opened, several large coal-fired power plants were built, and the nation's only commercial-scale coal gasification plant was developed. Since about 1989, this sector has been quite stable. Recent developments have included (1) construction of an anhydrous ammonia plant and an ammonium sulfate plant at the Dakota Gasification facility near Beulah and (2) closure of the 2+ million ton per year Gascoyne coal mine in Bowman County. The closure was attributed to competition from cheaper (on a delivered BTU basis) subbituminous coal from Montana. The mine's principal customer, the Big Stone power plant in South Dakota, now uses Montana coal. The outlook for the lignite industry appears favorable, but potential competition from Montana and Wyoming coal remains a concern.

The petroleum exploration and extraction industry has been the most volatile component of North Dakota's energy industry. Spurred by rising oil prices, oil exploration and production increased rapidly during the late 1970s and early 1980s. Exploration activity peaked in 1981 when about 130 rigs were working in western North Dakota, and about 8,750 were directly employed in the drilling industry. Oil production peaked in 1984 at 52.7 million barrels per year. With rapidly falling oil prices, exploration virtually ceased in 1986-87, and production began to decline, falling to 27.7 million barrels by 1994. Rising oil prices and improvements in drilling technology have led to a resurgence of the industry in recent years. Oil prices (average Amoco Posted Field Price) increased from \$14.73 in 1994 to about \$17 in 1996, and \$17.40 in 1997. Prices began to decrease in late 1997 and remained low through 1998; the calendar year average price for 1998 was \$10.69. Oil prices began an upswing in February of 1999, and the current North Dakota field price is about \$17. Production increased from 27.7 million barrels in 1994 to 32.3 million in 1996 and 35.8 million in 1997 (ND Office of State Tax Commissioner 1999). Production dipped slightly to 35.6 million in 1998 and is forecast to decrease to 34.6 million by 2001.

Manufacturing has been one of the state's key growth sectors in the 1990s, after a period of stagnation in the 1980s. Growth has occurred in both agricultural processing and in a variety of other manufacturing activities in the early 1990s. Several of the new agricultural processing ventures have been organized as producer-owned cooperatives. Two examples are Dakota Growers Pasta Company and the ProGold corn wet milling plant. Dakota Growers Pasta, located near Carrington, ND, mills durum wheat and produces a variety of pasta products. Beginning operations in 1993, the plant has since been expanded and now has about 250 employees. The ProGold Limited Liability Company began building a \$260 million corn wet milling plant in Richland County, near Wahpeton, in 1995. The plant began operation late in 1996, employing about 120 workers. The annual impact to the state economy has been estimated at \$251 million (Leistriz 1995).

Other manufacturing activities also have expanded in North Dakota during the 1990s. For example, AgAir Manufacturing, L.L.C., located in Valley City, began operations in 1996, employing about 130. The company is a joint venture between Deere & Company, Moline, IL and Capital Partners II, Ltd., Roswell, GA. The plant welds, assembles, and paints air seeders for Deere & Co.

Another recent expansion of the state's manufacturing sector came with a 1996 announcement by Marvin Windows, headquartered in Warroad, MN, of plans to build an \$8 million plant in Grafton, ND. The plant became operational in the spring of 1998 with about 150 employed the first year and 600 expected by the end of year 5.

The tourism sector has been growing in North Dakota, although this growth does not appear to be based on major destination attractions. The Badlands Region of southwestern North Dakota, Lake Sakakawea, and Devils Lake all are regional recreational attractions, while the new Fargodome arena is hosting increased numbers of trade shows and entertainment events which draw regional audiences.

While the economic base data reported here reflect the major activities that bring money into the state, some sources of basic income or "new wealth" are not included. For example, an increasingly important primary sector, which is not reflected in these data is the exported services sector. Exported services, particularly telemarketing and data processing activities, have become an increasingly important source of jobs and income in many parts of the state (Coon and Leistritz 1997). These activities will be discussed subsequently.

Employment by Sector

North Dakota's total employment increased by about 14 percent from 1990 to 1997 and 18 percent from 1985 to 1997. However, the performance of various sectors of the state economy varied considerably. Employment declined in two sectors during the 1985-97 period -- agriculture (-12%) and petroleum exploration, extraction, and refining (-46%) (Figure 2). Sectors with employment growth less than the overall average included government (14%), coal mining and conversion (10%), and transportation, communications, and public utilities (14%). Sectors with growth exceeding the overall average included business and personal services (47%), professional and social services (39%), and manufacturing and agricultural processing (30%).

The manufacturing sector growth has included expansion in agricultural processing and in a variety of other types of manufacturing. The growth of the services sectors is in part a reflection of nationwide shifts in the structure of the economy, with the bulk of employment growth occurring in the services sectors. However, growth in these sectors and particularly in the business and personal services sector also reflects the growing role of exported services in the economy of North Dakota and the Upper Midwest.

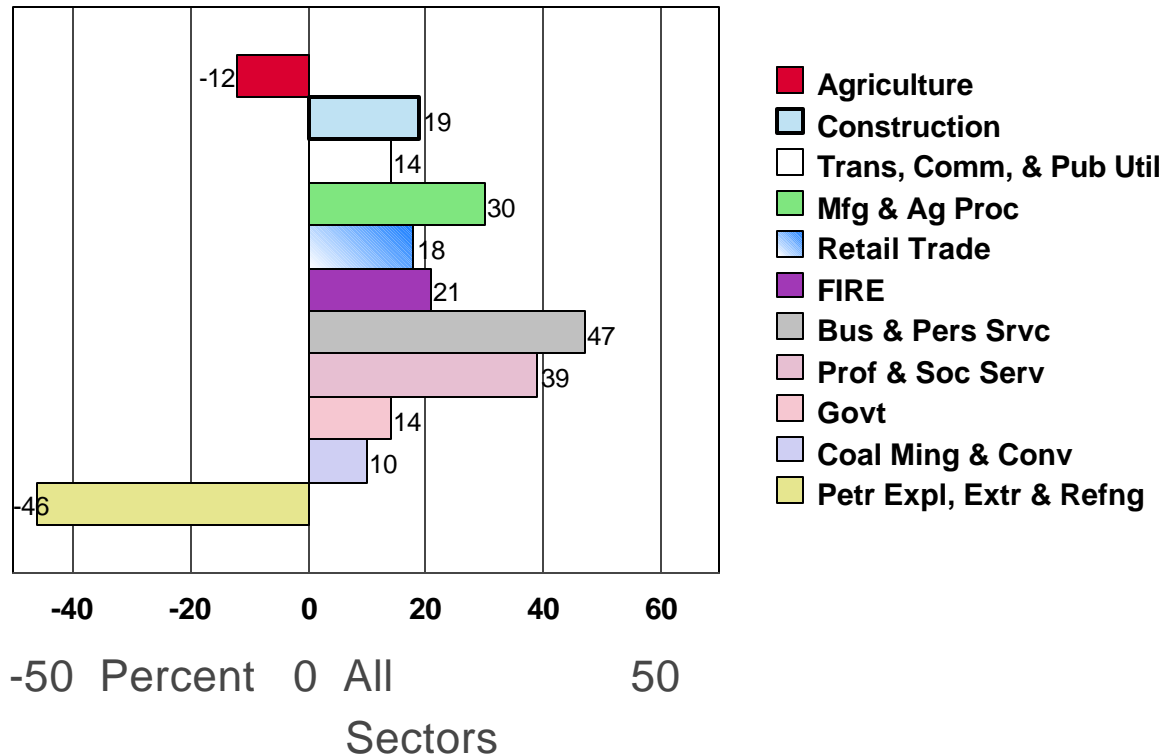


Figure 2. Changes in North Dakota Employment by Sector, 1985 to 1997

Exported Services

The types of exported services firms, also sometimes referred to as telecommunications-linked or telecommunications-based businesses (Leistriz 1993), that have been important sources of new jobs in North Dakota are outbound telemarketing (the marketing agent calls prospective customers), inbound telemarketing and related customer service activities (the marketing agent/service representative receives calls from customers), and data processing and related back office operations. These activities have demonstrated a potential to operate successfully at locations remote from major markets, or from their parent organizations, or both.

In North Dakota, outbound telemarketing firms have created a substantial number of jobs over the past few years. Further, these firms have been locating not only in the state's larger cities but also in many of the smaller towns. ProMark, a national telemarketing firm with its headquarters in Arizona, has established offices in Minot, Mandan, and Grand Forks. The first office (in Minot) was established in 1993; by early 1997 the three offices employed more than 800 people. Other firms have established telemarketing centers in smaller towns. For example, Impact Telemarketing has established four offices in towns ranging from about 1,500 to 16,000 population. These offices each employ 50 to 100 persons, with the larger offices located in the larger towns. Another firm, Midwest Telemark, was

started in 1990 in a northwestern North Dakota town of about 1,000 people. By 1993, they had expanded to about 70 employees. Feeling that the local labor supply was nearly exhausted, they then opened a branch in another small town (1,400 people) about 70 miles away.

An example of an inbound telemarketing operation in North Dakota is the Choice Hotels International reservation center in Minot. Started in 1991, the center handles calls for a number of hotel/motel chains with units throughout the US, Canada, and Mexico. Their employment varies seasonally, from about 150 in mid-winter to more than 350 in mid-summer. The jobs are mostly full-time (30+ hours per week), and they employ a substantial number of college students. Currently, Choice Hotels International is considering establishing up to three satellite reservation centers in the Minot area, each employing up to 80 full-time workers. The motivation for creating satellite centers is to find more workers. Three telemarketing firms in Minot now employ more than 900, and the local labor pool is nearly exhausted.

Data processing and back office operations can cover a wide variety of activities, with a similarly wide variety of skill requirements. Routinized data processing operations place a premium on rapid (9,500+ key strokes per hour) and error free data input, low labor costs, and low cost, high quality data transmission. However, routinized data processing requiring little phone contact also may be subject to foreign competition. A number of major companies have moved data entry operations to overseas locations.

Other types of back office operations have more stringent personnel requirements. For example, medical claims processing requires an understanding of medical terminology. U.S. Health Care, which opened a claims processing facility in Bismarck, ND in 1990, reports that medical background is one of its key selection criteria for new personnel, along with computer skills. This firm now employs around 400 people, almost all full-time.

Other major back office operations that have located in North Dakota in recent years include (1) a First Bank system operations center in Fargo that employs about 1,000, (2) a Cargill Inc. financial center, also located in Fargo, that employs about 250, and (3) a Unisys Corporation financial center (processing travel reimbursements and accounts payable) in Bismarck that employs about 130.

Recent announcements suggest further growth in the state's telecommunications-linked businesses. Minot officials recently announced that their city will be the new home of Northwest Airlines travel tour subsidiary. The move of the subsidiary from Minnetonka, MN will mean 150 jobs by the end of 1999 and about 600 in two years, with an average wage of \$9.50. Meanwhile, Rosenbluth Travel has announced plans to open an office in Williston. This will be the firm's fifth office in North Dakota and should bring their total employment in the state close to 1,000.

The number of jobs that telecommunications-linked businesses have created in North Dakota in recent years is impressive. Employment by these firms is not reported separately in published

employment statistics, but based on contacts with the industry and review of news releases, it appears that these firms have created at least 5,000 new jobs in the state since 1990. Further, the expansion plans that have been announced might add 1,000 jobs to this total. To put these figures in perspective, the number of jobs created by telecommunications-linked firms during the 1990s is comparable to the number created by the manufacturing sector during the same period.

Regional and Rural/Urban Differences

The economic and demographic changes affecting North Dakota over the past 15 years have not been evenly distributed across the state. Rather, the state's largest urban centers have generally experienced employment and population growth while outlying rural counties have more often lost jobs and population.

Employment changes for 1980-1997 and population changes for 1980-1998 for the state's four major urban centers (Bismarck-Mandan, Fargo, Grand Forks, and Minot) are compared with those for the remainder of the state in Table 2. From 1980 to 1997, employment grew 17.6 percent statewide, while employment in the five urban center counties (Burleigh, Cass, Grand Forks, Morton, and Ward) grew by 50.5 percent. During the same period, the state's remaining counties suffered a job loss of 7.9 percent in aggregate (Figure 3). During the more recent 1990-97 period, employment grew 10.9 percent statewide, with the five urban center counties registering an increase of 19.4 percent while the remaining counties had a 1.8 percent increase in jobs.

From 1980 to 1998, the state experienced a net population decrease of 2.2 percent (Table 2). The urban center counties' populations grew 14.0 percent in aggregate while the remaining counties lost 15.4 percent of their population (Figure 4). From 1990 to 1998, the state's population is estimated to have decreased by 0.1 percent, with the urban center counties recording a 5.9 percent increase while the other counties lost 5.9 percent.

Table 2. Changes in Employment and Population for Urban and Rural Areas of North Dakota, 1980-1998

Area	Employment Change		Population Change	
	1980-97	1990-97	1980-98	1990-98
	-----percent-----			
Statewide	17.6	10.9	-2.2	-0.1
Urban centers*	50.5	19.4	14.0	5.9
Rest of state	-7.9	1.8	-15.4	-5.9

*Five counties containing North Dakota's four wholesale-retail trade centers (i.e., Burleigh, Cass, Grand Forks, Morton, and Ward Cos.).

Sources: Population -- 1980 and 1990 from Coon and Leistritz (1998). 1998 estimates from North Dakota State Data Center (1999).

Employment -- Job Service North Dakota.

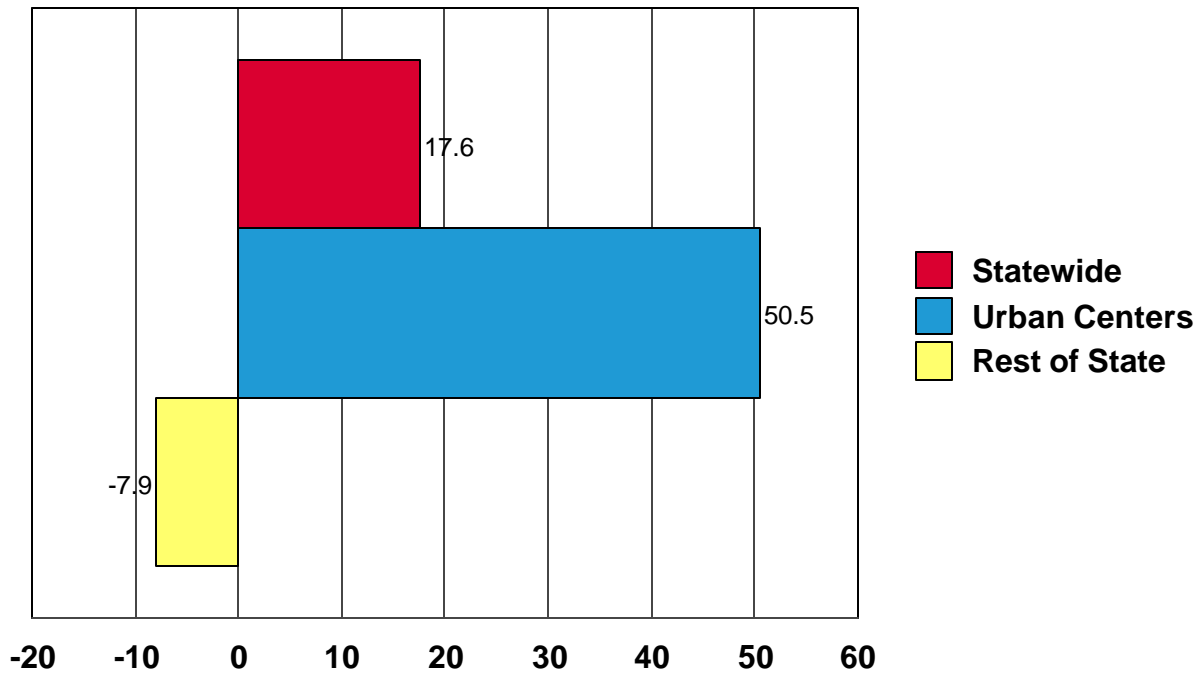


Figure 3. Employment Change, 1980-1997

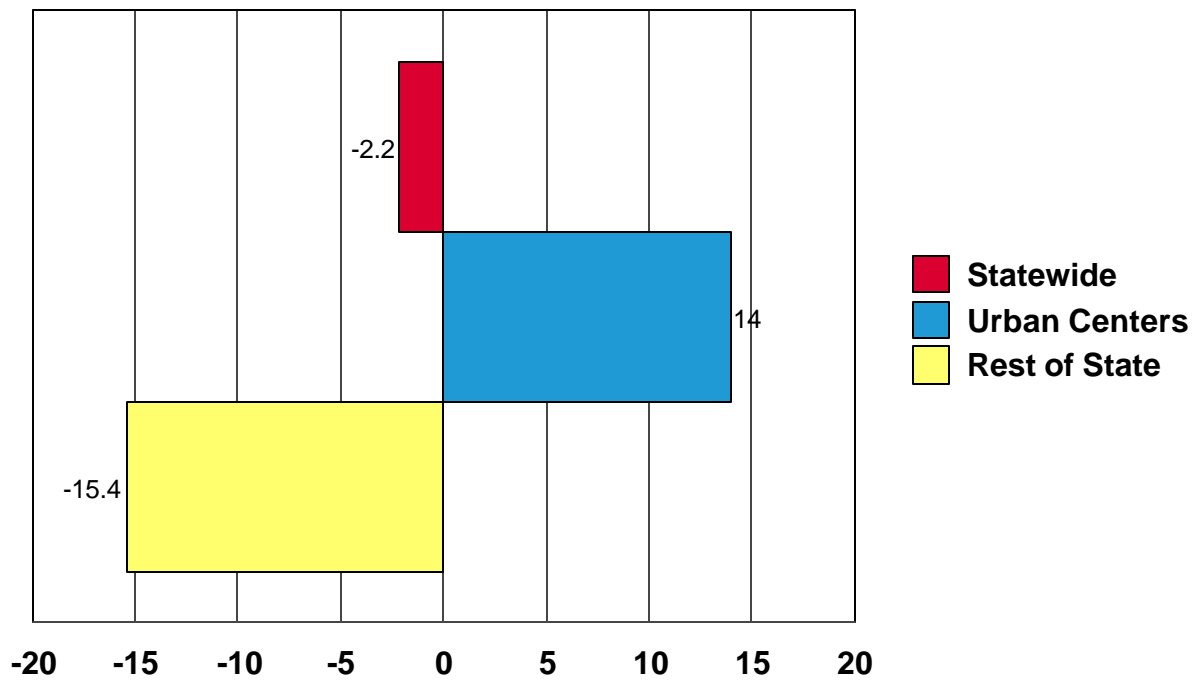


Figure 4. Population Change, 1980-1998

The regional distribution of employment and population changes is summarized in Table 3. For the period 1980-97, employment grew by 17.6 percent statewide, but the employment changes for the eight state planning regions ranged from 48.2 percent in Region 5 (Fargo) to -19.4 percent in Region 1 (Williston). Regions 7 (Bismarck) and 4 (Grand Forks) also recorded employment growth greater than the state average, while Regions 3 (Devils Lake), 6 (Jamestown/Valley City), and 8 (Dickinson) registered decreases of 2 to 5 percent. From 1990 to 1997, employment increased 10.9 percent statewide, with Regions 4 (Grand Forks), 5 (Fargo), and 7 (Bismarck) registering above-average growth while Regions 6 (Jamestown/Valley City) and 8 (Dickinson) recorded the lowest rates of employment growth.

Table 3. Changes in Employment and Population for North Dakota Regions, 1980-1998

Region	Employment Change		Population Change	
	1980-97	1990-97	1980-98	1990-98
	-----percent-----			
Statewide	17.6	10.9	-2.2	-0.1
East:				
Region 4	21.4	11.6	-4.6	-5.7
Region 5	48.2	19.1	17.9	9.4
East Central:				
Region 3	-2.3	5.6	-8.9	-2.6
Region 6	-4.6	2.0	-17.7	-8.0
West Central:				
Region 2	11.6	10.4	-8.7	-2.6
Region 7	25.4	13.1	3.3	3.8
West:				
Region 1	-19.4	4.4	-14.2	-7.3
Region 8	-3.2	-3.0	-15.8	-5.1

Sources:

Population -- 1980 and 1990 from Coon and Leistritz (1998). 1998 estimates from North Dakota State Data Center (1999).

Employment -- Job Service North Dakota (1999).

Over the period 1980-98, North Dakota's population decreased by 2.2 percent, and six of the eight planning regions also experienced population losses (Table 3). Regional population changes ranged from a gain of 17.9 percent in Region 5 (Fargo) to a decrease of 17.7 percent in Region 6 (Jamestown). During 1990-98, North Dakota's population fell 0.1 percent, and only Regions 5 (Fargo) and 7 (Bismarck) registered gains (Figure 5).

Major Factors Affecting the State's Economic Future

A number of forces may affect North Dakota's economy over the next few years, including agricultural markets and prices, oil prices, and the effects of national policy decisions on federal transfer payments and on the operation of the state's two Air Force bases. The 1996 FAIR Act has had the effect of making U. S. agriculture more vulnerable to international market forces than has been the case for several decades. A combination of depressed demand in some major markets for U. S. agricultural exports (particularly Asia) and strong supplies from major producing areas has led to depressed prices for major feed and food grains and oilseeds. These conditions are expected to persist for the next two or three years. North Dakota is particularly vulnerable to depressed crop prices because (1) agriculture makes up a substantial part of the state's economic base and (2) crops make up a high percentage of the state's agricultural receipts (73% in 1997).

The petroleum exploration and extraction sector is still quite important to the North Dakota economy, and particularly to the western portion of the state. In recent years, rising oil prices sparked a resurgence of the industry during the period 1992-97. Slumping oil prices in 1998 led to major reductions in oil exploration and development of new fields, and some existing wells were shut down. Higher oil prices over the past six months have led to some increase in production. Over the next few years, further price increases could enhance the level of activity in this sector, or price decreases could serve to dampen it.

As discussed previously, federal expenditures, and particularly federal transfer payments, have become a very substantial portion of North Dakota's economic base. National efforts to curb the growth of expenditures for entitlement programs could have substantial economic implications for North Dakota. Similarly, the state's two Air Force bases are economic pillars of the communities where they are located. During 1996-98, a change of mission for the Grand Forks Air Force Base led to removal of the Minuteman missiles that had been based there, which resulted in loss of about one-third of the 5,000+ jobs associated with the base. With further base closure and realignment evaluations always a possibility, the future of the bases may be a matter of some concern.

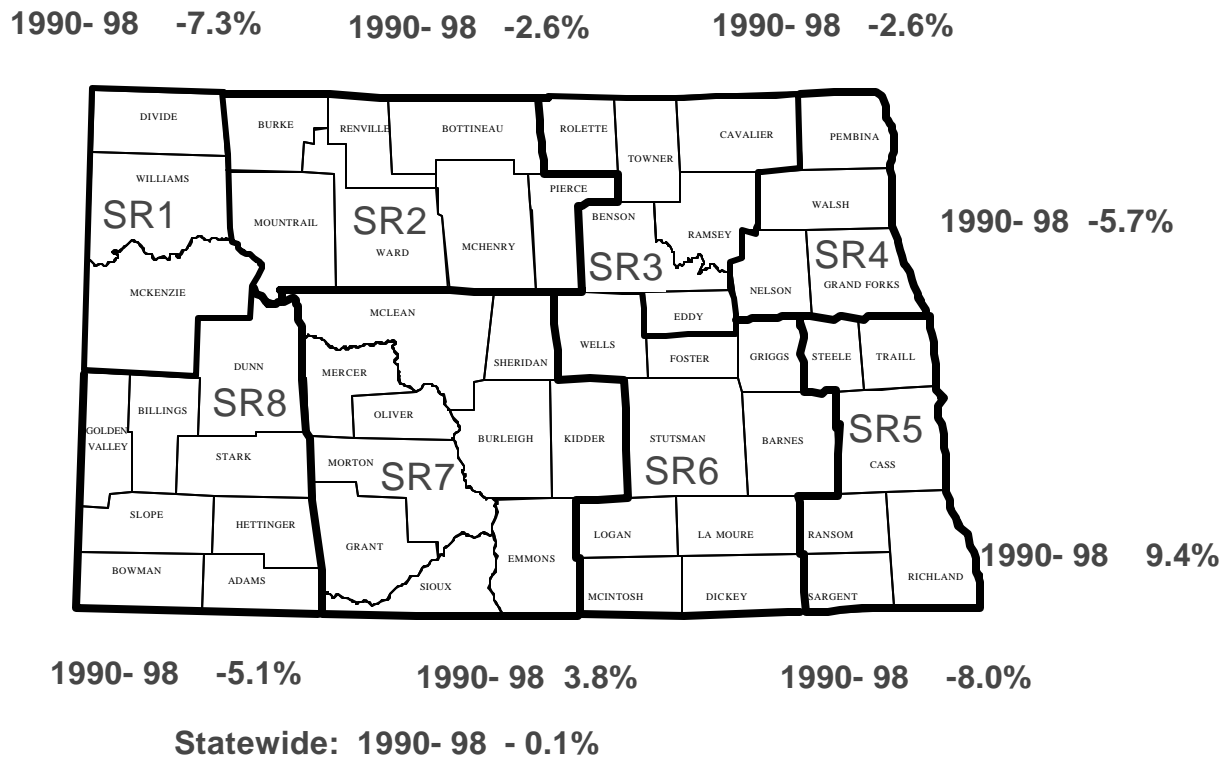


Figure 5. North Dakota Population Change, 1990-98, by Region

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